

## H&R Block (HRB)

**\$15.88** (As of 03/26/20)

Price Target (6-12 Months): **\$18.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 02/09/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**3-Hold**

Zacks Style Scores:

VGM:D

Value: C

Growth: F

Momentum: A

## Summary

H&R Block looks well poised to gain from opportunities offered by the tax industry that has been growing since 2005. The company has undertaken several initiatives to boost both assisted and DIY businesses. The company continues to focus on competitive pricing, investment in product innovation and user experience improvement. The company's solid cash position allows it to pursue opportunities that exhibit true potential and positions it for sustainable clients, revenue and earnings growth. However, escalating costs due to heavy investments in technology and operations might weigh on H&R Block's bottom line, thereby affecting its share price, which has underperformed its industry over the past year. Seasonality causes considerable fluctuations in revenues and makes profit forecasting difficult. The company also faces huge litigations.

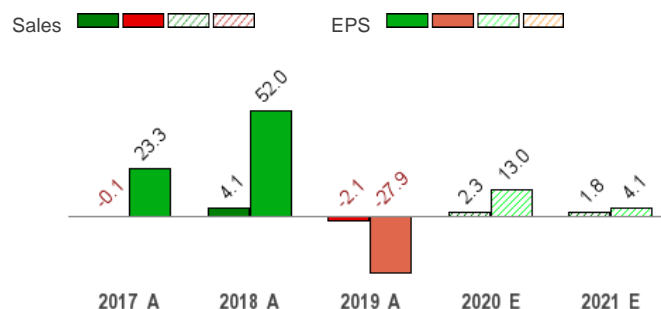
## Price, Consensus & Surprise



## Data Overview

52 Week High-Low	<b>\$29.62 - \$11.29</b>
20 Day Average Volume (sh)	<b>5,149,528</b>
Market Cap	<b>\$3.1 B</b>
YTD Price Change	<b>-32.4%</b>
Beta	<b>0.35</b>
Dividend / Div Yld	<b>\$1.04 / 6.5%</b>
Industry	<a href="#">Consumer Services - Miscellaneous</a>
Zacks Industry Rank	<b>Top 18% (45 out of 253)</b>

## Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	<b>-9.3%</b>
Last Sales Surprise	<b>6.2%</b>
EPS F1 Est- 4 week change	<b>-0.7%</b>
Expected Report Date	<b>06/09/2020</b>
Earnings ESP	<b>0.0%</b>
P/E TTM	<b>7.4</b>
P/E F1	<b>6.5</b>
PEG F1	<b>0.7</b>
P/S TTM	<b>1.0</b>

## Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					3,225 E
2020	150 A	161 A	519 A	2,340 E	3,167 E
2019	145 A	149 A	468 A	2,332 A	3,095 A

## EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	-\$0.80 E	-\$0.98 E	-\$0.54 E	\$4.75 E	\$2.53 E
2020	-\$0.72 A	-\$0.85 A	-\$0.59 A	\$4.61 E	\$2.43 E
2019	-\$0.72 A	-\$0.83 A	-\$0.58 A	\$4.32 A	\$2.15 A

\*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/26/2020. The reports text is as of 03/27/2020.

## Overview

H&R Block Inc. is a leading provider of tax preparation services. The company provides assisted income tax return preparation, do-it-yourself (DIY) tax solutions and other products and services associated with income tax return preparation in the United States, Canada and Australia.

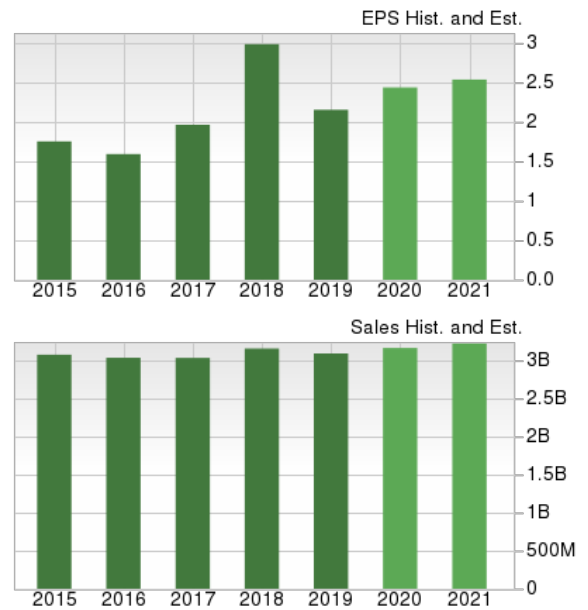
The company's assisted income tax return preparation services are provided through a system of retail offices operated directly by the company or by franchisees. H&R Block's DIY tax services include preparation of federal and state income tax returns, advice and tax-related news, access to tax tips, use of calculators for tax planning, and error checking and electronic filing. The company develops and markets DIY income tax preparation software online, and through third-party retail stores and direct mail. The company offers return preparation solutions through mobile applications as well.

Additional offerings from the company include Refund Transfers, H&R Block Emerald Advance lines of credit, Peace of Mind Extended Service Plan, Tax Identity Shield, H&R Block Emerald Prepaid MasterCard, and refund advance loans; POM, an Instant Cash Back refund option; and H&R Block Pay with Refund option.

H&R Block was organized as a corporation in 1955 under the laws of the State of Missouri and is headquartered in Kansas City, MO. The company has around 11,600 company-owned and franchise offices worldwide. As most of the clients file their tax returns from January through April of each year, most of H&R Block's revenues from income tax return preparation and related services and products are received during this period. As a result, the Tax Services segment generally operates at a loss through the first nine months of a fiscal year.

H&R Block has a robust cash generation capacity, which allows it to pursue opportunities that exhibit true potential and positions it for sustainable clients, revenue and earnings growth.

In fiscal 2019, the company's revenues decreased \$2.1% on a year-over-year basis. **U.S. assisted tax preparation fees** were down 4.5% due decrease in net average charge of 4.0% because of lower prices. **U.S. DIY tax preparation fees** increased \$16.9 million , or 7.0% , mainly due to higher online volumes.



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## Reasons To Buy:

▲ **The tax industry is growing** steadily since 2005 in both assisted and DIY channels and the momentum is expected to continue in the years to come. H&R Block looks well poised to gain from opportunities offered by the industry. In its assisted business, the company is focused on investment in price, developing and delivering on a clear brand promise, enhancing the quality service delivery. In the DIY business, H&R Block continues focusing on competitive pricing and investment in product innovation and user experience improvement.

H&R Block looks well poised to gain from opportunities offered by growing tax industry in both assisted and DIY channels.

▲ **H&R Block invested** in three broad areas in 2019 — price, technology, and operational excellence. On the price front, it focussed on price reduction to attain competitive pricing. With technology, H&R Block built new tax engine to consolidate multiple systems, invested in cross-channel capabilities to streamline client experience across platforms, moved its physical data centers to the cloud, and optimized data architecture and analytics platform. With regard to operational excellence, the company is improving execution of standard operating procedures for better quality and consistency of service delivery. These initiatives are aimed at achieving overall objectives of clients, revenue, and earnings growth over the long term.

▲ H&R Block has a **robust cash generation capacity**, which allows it to pursue opportunities that exhibit true potential and positions it for sustainable clients, revenue and earnings growth. The company used \$774.5 million of cash in operating activities and spend \$23.7 million on capex in third-quarter fiscal 2020.

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## Reasons To Sell:

- ▼ H&R Block is witnessing **escalation in costs** as it plans to invest heavily in technology and operations. This might weigh on the company's bottom line, thereby affecting its share price, that has declined 36.5% over the past year. The company earns majority of its revenues in the fourth quarter of the fiscal year as most of its clients file their tax returns from February through April. Revenues stay significantly down and the company incurs loss in first three quarters of fiscal year.
  - ▼ H&R Block **faces huge litigations** in connection with its various operating activities. H&R Block is also exposed to employment related lawsuits in various parts of the country and compliance fee litigation in Missouri state and federal courts. Such litigations weigh on investor sentiment and hamper the company's goodwill.
  - ▼ H&R Block's **balance sheet is highly leveraged**. As of Jan 31, 2020, long-term debt and line of credit borrowings were \$1.9 billion while cash and cash equivalents were \$192.3 million. Such a cash position implies that H&R Block needs to generate adequate amount of operating cash flow to service its debt. Also, high debt may limit the company's future expansion and worsen its risk profile.
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Higher expenses and seasonality weigh on the company's bottom line.

## Last Earnings Report

### H&R Block Q3 Loss Widens Year Over Year

H&R Block incurred third-quarter fiscal 2020 adjusted loss per share from continuing operations of 59 cents, higher than the Zacks Consensus Estimate of loss of 54 cents.

Loss increased year over year due to rise in pre-tax loss (11.6% year over year to \$177 million) and lower shares outstanding, partially offset by increased tax benefit. The company usually incurs loss in the first three quarters of fiscal year due to the seasonality of its tax business.

Quarter Ending 01/2020

Report Date	Mar 05, 2020
Sales Surprise	6.19%
EPS Surprise	-9.26%
Quarterly EPS	-0.59
Annual EPS (TTM)	2.16

### Revenues

Revenues of \$519.2 million surpassed the consensus estimate by 6.2% and increased 10.9% year over year. The improvement was driven by contribution from acquired franchises and Wave, and improved tax return volumes in both Assisted and DIY.

### Expenses

Total operating expenses were \$671.8 million, up 10.8% year over year. The increase was due to technology and Wave Financial related investments, increased compensation associated with higher Assisted tax return volumes and timing of marketing expense recognition.

### Financial Position

H&R Block exited the quarter with cash and cash equivalents balance of \$192.3 million compared with \$245.3 million at the end of the prior quarter. Long-term debt and line of credit borrowings were \$1.9 billion. The company used \$774.5 million of cash in operating activities and capex was \$23.7 million. The company paid out dividends of \$50.8 million in the quarter. H&R Block repurchased and retired 2.8 million shares at an aggregate price of \$65.8 million.

### Outlook

The company reaffirmed its fiscal 2020 revenue growth and margin outlook. It continues to expect total revenue growth of 1.5% to 3.5%. EBITDA margin is expected between 24% and 26%. The company's effective tax rate expectation is 19-21% .

## Valuation

H&R Block shares are down 36.5% over the trailing 12-month period. Stocks in the Zacks sub-industry and Zacks Business Services sector are down 27.9% and 16.3%, respectively, over the past year. The S&P 500 index is down 7.6% in the said time frame.

The stock is currently trading at 7.35X price to forward 12 months' earnings, which compares to 12.46X for the Zacks sub-industry, 19.14X for the Zacks sector and 14.92X for the S&P 500 index.

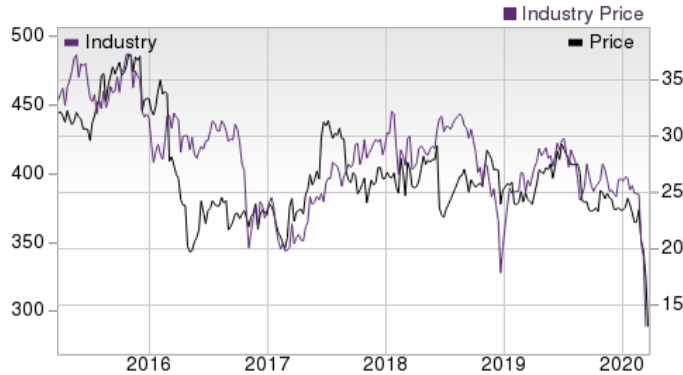
Over the past five years, the stock has traded as high as 23.64X and as low as 5.73X, with a 5-year median of 13.12X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$18.00 price target reflects 8.33X price to forward 12 months' earnings.

The table below shows summary valuation data for HRB

Valuation Multiples - HRB					
		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	7.35	12.46	19.14	14.92
	5-Year High	23.64	51.46	32.64	19.34
	5-Year Low	5.73	12.34	19.14	14.92
	5-Year Median	13.12	22.85	25.45	17.42
P/S F12M	Current	0.95	0.44	1.75	2.68
	5-Year High	3.2	2.38	3.19	3.43
	5-Year Low	0.88	0.44	1.75	2.54
	5-Year Median	1.76	1.43	2.53	3
EV/EBITDA TTM	Current	7.54	7.77	9.24	9.74
	5-Year High	12.67	9.72	17.6	12.88
	5-Year Low	4.85	6.1	8.26	8.27
	5-Year Median	7.38	7.61	12.28	10.78

As of 03/26/2020

## Industry Analysis Zacks Industry Rank: Top 18% (45 out of 253)



## Top Peers

Blucora, Inc. (BCOR)	Neutral
Broadridge Financial Solutions, Inc. (BR)	Neutral
Equifax, Inc. (EFX)	Neutral
East West Bancorp, Inc. (EWBC)	Neutral
Fiserv, Inc. (FISV)	Neutral
Global Payments Inc. (GPN)	Neutral
Intuit Inc. (INTU)	Neutral
Paychex, Inc. (PAYX)	Neutral

Industry Comparison Industry: Consumer Services - Miscellaneous				Industry Peers		
	HRB Neutral	X Industry	S&P 500	EFX Neutral	INTU Neutral	PAYX Neutral
<b>VGM Score</b>	<b>D</b>	-	-	<b>C</b>	<b>B</b>	<b>D</b>
Market Cap	3.06 B	786.01 M	18.50 B	14.75 B	64.70 B	23.50 B
# of Analysts	5	4	13	11	10	12
Dividend Yield	6.55%	0.00%	2.35%	1.28%	0.85%	3.78%
<b>Value Score</b>	<b>C</b>	-	-	<b>D</b>	<b>D</b>	<b>D</b>
Cash/Price	0.14	0.08	0.07	0.03	0.04	0.04
EV/EBITDA	6.09	8.63	11.16	1,107.91	29.61	13.33
PEG Ratio	0.61	0.95	1.74	2.96	2.56	3.07
Price/Book (P/B)	NA	1.85	2.44	5.62	17.36	8.52
Price/Cash Flow (P/CF)	5.33	6.60	9.87	14.40	38.04	16.39
P/E (F1)	6.09	7.34	15.29	21.46	32.64	21.48
Price/Sales (P/S)	0.97	0.49	1.93	4.20	9.08	5.72
Earnings Yield	15.30%	13.69%	6.47%	4.66%	3.06%	4.66%
Debt/Equity	-6.82	0.17	0.70	1.29	0.10	0.33
Cash Flow (\$/share)	2.98	2.74	7.01	8.45	6.53	4.01
<b>Growth Score</b>	<b>F</b>	-	-	<b>C</b>	<b>A</b>	<b>C</b>
Hist. EPS Growth (3-5 yrs)	10.41%	5.06%	10.85%	6.64%	26.40%	10.85%
Proj. EPS Growth (F1/F0)	13.12%	11.26%	2.89%	0.86%	12.74%	7.63%
Curr. Cash Flow Growth	-24.47%	7.80%	5.93%	0.48%	18.22%	10.82%
Hist. Cash Flow Growth (3-5 yrs)	1.16%	9.50%	8.55%	8.37%	9.68%	12.37%
Current Ratio	0.97	1.00	1.23	0.89	1.67	1.19
Debt/Capital	86.00%	47.39%	42.57%	56.30%	9.10%	24.63%
Net Margin	12.96%	4.57%	11.64%	-11.37%	22.89%	26.98%
Return on Equity	416.90%	11.59%	16.74%	26.42%	41.03%	41.68%
Sales/Assets	1.00	1.08	0.54	0.47	1.09	0.46
Proj. Sales Growth (F1/F0)	2.32%	2.29%	2.37%	5.59%	10.74%	9.39%
<b>Momentum Score</b>	<b>A</b>	-	-	<b>C</b>	<b>B</b>	<b>D</b>
Daily Price Chg	15.07%	1.67%	6.21%	5.12%	6.80%	9.29%
1 Week Price Chg	-25.09%	-12.89%	-16.96%	-24.92%	-22.74%	-27.38%
4 Week Price Chg	-25.34%	-20.14%	-15.70%	-16.16%	-7.58%	-16.78%
12 Week Price Chg	-32.37%	-32.37%	-23.67%	-14.57%	-6.68%	-22.85%
52 Week Price Chg	-34.14%	-24.12%	-13.99%	4.17%	-4.18%	-16.94%
20 Day Average Volume	5,149,528	203,446	4,286,768	1,520,522	2,601,019	4,389,069
(F1) EPS Est 1 week change	0.00%	0.00%	-0.15%	0.00%	0.00%	-1.92%
(F1) EPS Est 4 week change	-0.73%	0.00%	-2.28%	-0.81%	-0.16%	-2.58%
(F1) EPS Est 12 week change	-0.63%	0.41%	-3.22%	-1.95%	-0.06%	-2.58%
(Q1) EPS Est Mthly Chg	1.14%	0.00%	-1.60%	0.00%	-0.18%	-5.75%

## Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	C
Growth Score	F
Momentum Score	A
VGM Score	D

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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